

Iowa Ag Review

CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT

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Government Payments to Supplement Iowa Farm Income

—by Phil Kaus, CARD

On October 21, after much debate and political wrangling, Congress passed and the President signed into law the \$500 billion Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999. Central to the budget debate: how to help U.S. farmers during a time of economic stress due to crop disasters and low commodity prices. Producers have been faced with a substantial drop in net farm income as a result of the agricultural situation in recent months.

Congress provided nearly \$6 billion in an aid package for U.S. producers imbedded in the Omnibus-spending bill. The bulk of this amount, \$2.8 billion, will be in the form of direct payments to producers who were eligible under the 1996 Farm Bill to receive 1998 production flexibility contract (PFC) payments. Producers should have begun to receive those payments in November 1998, and the amounts should be around 49.72 percent of their 1998 contract payment. On a per-bushel basis, this amounts to approximately \$.19 for contract corn, \$.33 for

wheat, and \$.23 for sorghum. Payments for other crops include \$.035 per pound for cotton and \$1.46 per hundredweight for rice. Iowa producers should receive about \$270 million in the form of supplemental PFC payments and should also be eligible to receive some disaster assistance. For disaster assistance, producers will need to see their local Farm Service Agency (FSA) agent.

Other allocations of the \$6 billion aid package include the following.

- \$200 million in assistance to dairy producers. Distribution will be determined by the Secretary of Agriculture through a formula yet to be determined. In essence, this could provide \$.12 per hundredweight.
- \$1.5 billion for single-year disaster. This is set aside specifically for crop losses in 1998.
- \$875 million for multi-year disasters. This was established primarily for Northern and Southern Plains producers who have suffered production problems, either weather or

disease related, during successive years (three of the last five).

- \$200 million in livestock feed assistance. This provision provides cost-share assistance to livestock producers who lost 1998 feed supplies to disaster.
- Permanent income averaging. This will help spread producers' income tax burden over three years.
- Changes in health insurance deductibility for the self-employed. Presently, deductibility is 45 percent. This increases to 60 percent in 1999, 70 percent in 2002, and goes to 100 percent in 2003.
- Net operation loss carryback. Farmers can carryback a net loss for up to five years and receive a tax refund.
- Farmers will not have to pay taxes on contract payments until they are actually received.
- Fuel use credits for biodiesel.

Other legislation also provides assistance to producers.

Under the 1998 Emergency Farm Financial Relief Act, eligible producers are able to receive their PFC payments early. With a visit to the county FSA office, farmers can determine which of several options in this one-time program to use. They can request the entire payment for December 1998 or January 1999. They also have the option of receiving half of the payment in December 1998 and the other half in January 1999. Producers who don't request the early option will either receive the first half in December 1998 or January 1999 and the other half in September 1999, or the whole payment in September.

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Farmers are also eligible under the 1996 Farm Bill to claim loan deficiency payments (LDP) when commodity prices fall below established levels. The LDPs vary from day to day and county to county, but producers have been very active in taking advantage of this program this year. LDPs for this year's crop can be taken anytime between the harvest of the crop and next May, as long as the producer still has control. Also, for this year, producers who harvested

feed grains in forms other than whole kernel are eligible. As of December 1, Iowa farmers had claimed LDPs on 283.6 million bushels of corn for \$44 million, 216 million bushels of soybeans for \$82.3 million, and 2.1 million bushels of oats for \$259 thousand. Using this program, Iowa's producers have claimed, for all eligible crops, more than \$127.6 million. (See the CARD Web site for specific information www.card.iastate.edu)

The government payments will be a shot in the arm to those in farm country as they head into 1999. Producers should be aware of the tax implications when exercising some of their payment options. The tax adjustments should provide more long-term benefits for producers by allowing them to average out the fluctuations in income that occur in agriculture. ♦

Three-Year Outlook for Iowa Agriculture

—by Phil Kaus, CARD

In November, the Food and Agricultural Policy and Research Institute (FAPRI) established its preliminary annual baseline projections. An updated outlook for Iowa agriculture from 1999 to 2002 was generated from the results of these projections. Currently, Iowa producers wrapped up near-record harvests of corn and soybeans last fall; unfortunately, these large yields are being added to already large world supplies. Thus, producers have been met with low prices.

To add to the bleak situation, pork producers were faced with the worst October and November prices in recent history. Packing plants slaughtered, on average, more than 2 million head per week during October and November. The situation was similar in other pork producing countries.

Large world supplies have decreased the need for American agricultural products abroad. For the first 11 months of 1998, overall exports of agricultural goods dropped 6 percent. A 14 percent drop in corn exports punctuates this decline.

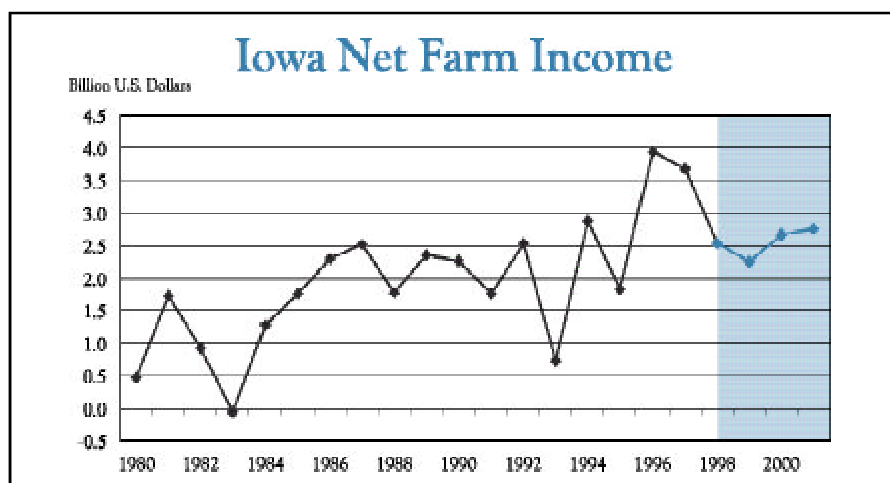
Implications for Iowa Agriculture

CORN AND SOYBEANS

Iowa producers will continue to use the options available in the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. Corn producers will respond by reducing the acres planted to corn by about 2 percent next year, and increasing acreage slightly during the following two years. Yields will dip slightly in

1999 before increasing through the rest of the period, as there is a return to more normal weather conditions during the growing season. Iowa corn production for 1999/00 is projected to decline to 1.747 billion bushels and then increase to 1.8 billion bushels by the end of the period. Soybean acreage is projected to drop about 1 percent for each of the next two years and increase slightly in 2001/02. Like corn, soybean yields are expected to drop next year and then end the period on an up note. Soybean production is projected to be 490 million bushels in 1999/00 and increase to 498 million bushels by 2001/02.

The season-average price of corn for 1998/99 is projected to be 15 percent lower than the 1997/98, price at \$1.98 per bushel. This is projected to increase \$0.15 by the end of the period, as the world supplies remain large. Soybean prices for 1998/99, when compared to the 1997/98 marketing year, are projected to decline 16 percent to \$5.32 per bushel. Bean prices are then expected to decline slightly in 1999/00 before recovering toward the end of the period. Receipts from crop sales are projected to decline about 15 percent in 1998/99 and bottom out at



FAPRI Baseline Meeting

Last November, the Food and Agricultural Policy Research Institute (FAPRI) staff from both Iowa State University and the University of Missouri met at Iowa State's Memorial Union to begin work on the annual baseline.

After this meeting researchers developed a five-year preliminary assessment of supply, utilization, and certain policy assumptions for approximately 25 commodities and 35 countries. From these assessments, a preliminary baseline was produced that projects all the variables for 10 years into the future, assuming normal weather and unchanging governmental policy.

In mid-January about 100 commodity analysts from various domestic and international governmental units, agricultural industries, trade groups, and a consortium of universities met in Kansas City to provide critical analysis and input for the baseline.

The group's final meeting took place in late January at the University of Missouri to establish the final baseline, incorporating comments from the Kansas City review.

Katie Thomas



Frank Fuller and Jay Fabiosa, CARD Staff



Katie Thomas

FAPRI staff working on the annual baseline at Iowa State University.

\$5.94 billion in 1999/00 before increasing during the end of the outlook period.

HOGS AND CATTLE

This year has been hard on Iowa's livestock producers. The pork industry has been faced with a steady decline in prices since May 1998, while the cattle sector has been looking to turn the corner into profitability all year, but only recently appeared to get there. Iowa hog numbers will decline through the period to 13.4 million head in 2001 as more and more independent producers opt to get out. The season-average farm price for barrows and gilts is forecasted to be 42 percent lower in 1998 than 1997.

Sow price is forecasted to be 47 percent lower. Along with sow prices, barrow and gilt prices are projected to recover slowly through the period to \$39.88 per hundredweight and \$30.86 per hundredweight, respectively, by 2001.

Iowa's January 1 Cattle on Feed numbers for 1999 are projected to be 78,000 head lower than last year's number and are projected to decline another 3 percent in 2000 before ending the period on an up note. Cattle placed in Iowa feedlots are projected to increase slightly in 1999, then decrease for the rest of the period as producers retain more heifers. The forecasted average farm price for a feeder steer in 1998 is \$79.56 per hundredweight, and it is

projected to increase to \$89.46 per hundredweight by 2001.

Iowa net farm income for 1998 is projected down 31 percent from 1997 to \$2.53 billion. This is 3 percent below the five-year average of \$2.61 billion, from 93 to 97 percent. The 1998/99 income is bolstered by the U.S. government's announcement of an extra production flexibility contract (PFC) payment and other disaster relief (see article on government payments). Net farm income is projected to decline even farther to \$2.24 billion in 1999 before recovering slightly toward the end of the period. ♦

Iowa's Agricultural Situation

—by Phil Kaus, CARD

Iowa's agricultural industries are caught in the middle of large world supplies and stagnant export growth. The government has agreed to provide producers some short-term economic support (see article on government payments), but this does not change the forces that are driving down today's commodity markets. Once again, Iowa producers seem to be at a crossroads, with high supplies. However, it appears that grain production from the United States's major competitors will be lower next year.

The National Agricultural Statistics Service's (NASS) latest report on cash receipts show that the total crop and livestock receipts for Iowa, for the period January 1998 to August 1998, are down about 14 percent from the same period last year. The five-year average for the same period shows cash receipts to be up not quite 1 percent.

It appears that corn and oat prices may have hit bottom and are on their way up. Recently, crop producers have been teased with a slight recovery of prices. Typically soybeans hit their seasonal lows in October, and we should be past those now. Also, food aid packages to Russia and Central America have bolstered prices at the major exchanges. Weather-related problems in Brazil and Argentina have also helped lend support to price increases.

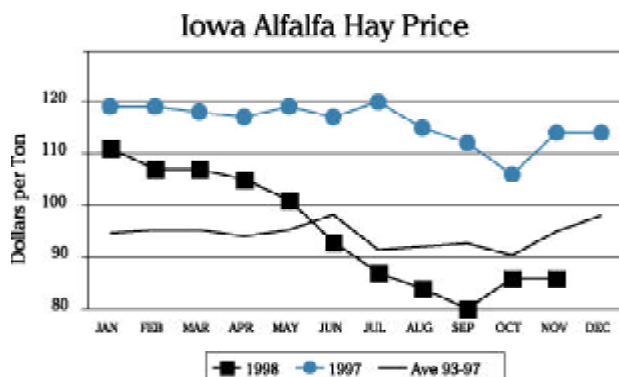
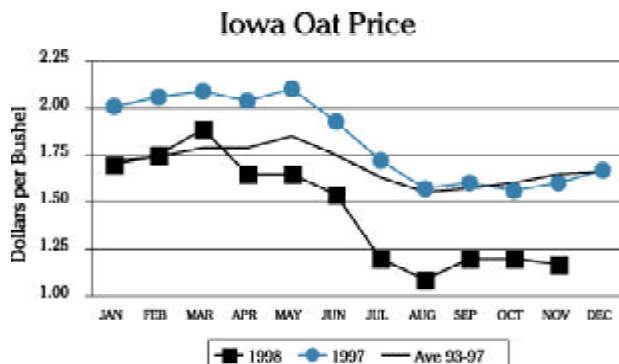
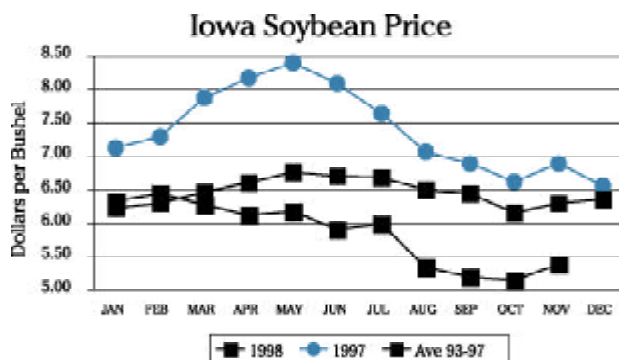
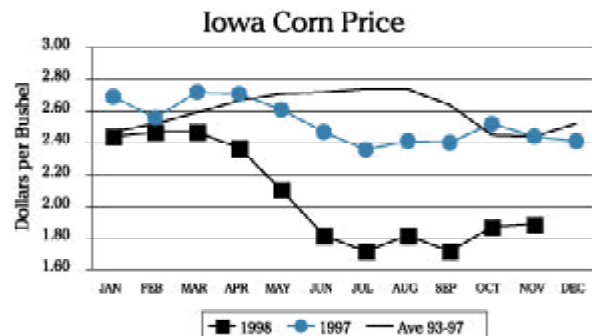
Hampering the recovery will be the large stocks-to-use ratios. These have been revised downward since the last Food and Agricultural Policy and Research Institute (FAPRI) report for soybeans and wheat, but remain above historical levels. Soybeans have been supported by strong world demand for oil, which has kept soybean crush at high levels. Stocks-to-use ratios are revised upward for corn, due to the large crop and good harvest conditions this year.

The cattle sector appears to be poised for recovery. The U.S. Cattle on Feed report indicates numbers have dropped below last year's inventory for the past few months. Fed cattle marketings have also fallen below last year's levels. By the first of next year we should see a tightening of supplies of feeder cattle which should lead to a price recovery.

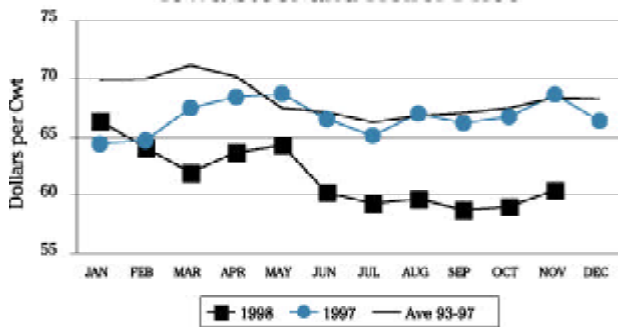
Dampening the price recovery for Iowa's cattlemen is the problem of heavy weight cattle. The problem seems to have moderated somewhat during the past few months but weights are still running above last year's weights. Compounding the problem are very large pork supplies.

Hog prices continue their downward trend to the lowest levels in decades. Slaughter was at record levels in October and November, averaging more than 2 million head per week. Slaughter plants have been working at capacity and regularly slaughtering on Saturdays and Sundays. With so many market-ready hogs and the slaughter plants working at capacity, many of Iowa's pork producers have been forced to sell at prices well below their cost of production. Latest indications are that slaughter numbers will not back off until late January 1999.

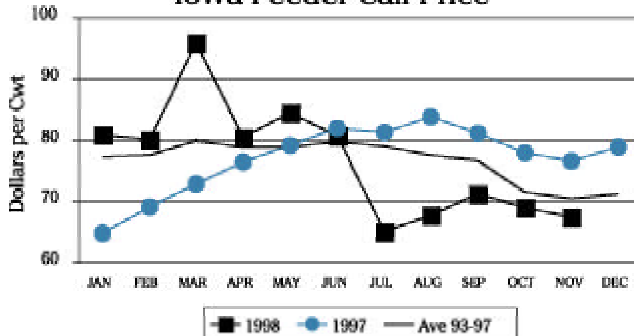
In an effort to help pork producers, the U.S. Department of Agriculture (USDA) recently announced it would buy \$50 million of pork products. This followed a previous announcement that 50,000 metric tons of pork would be included in the



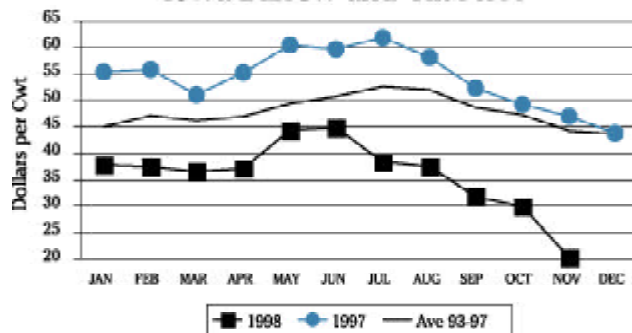
Iowa Steer and Heifer Price



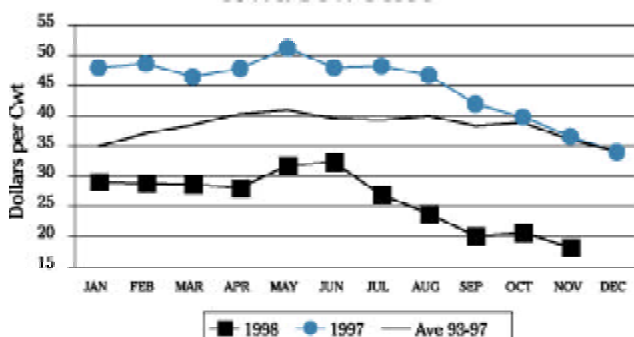
Iowa Feeder Calf Price



Iowa Barrow and Gilt Price



Iowa Sow Price



Russian Aid Package. However, the USDA puts the mid-November price received by Iowa producers for barrows and gilts at \$20.40 per hundredweight. If there is light at the end of the tunnel, it would be that the past summer's farrowings, which provide supplies for slaughter in the first quarter of 1999, indicate only a slight increase over last year's numbers. This should lead to a recovery of prices into the low \$30 per hundredweight range. ♦

Iowa Cash Receipts Jan. – Aug.

	1998	1997	1996
(Million Dollars)			
Crops	3,839	4,581	4,171
Livestock	3,188	3,558	3,526
Total	7,026	8,139	7,698

World Stocks-to-Use Ratios

	1998/99 November Projection	Crop Year 1997/98 November Estimate	1996/97 (Percent)
Corn	15.99	14.67	16.04
Soybeans	14.82	12.82	9.47
Wheat	20.58	23.38	19.24

Average Farm Prices Received by Iowa Farmers

	October 1998	September 1998	October 1997
(\$/Bushel)			
Corn	1.87	1.72	2.52
Soybeans	5.15	5.20	6.62
Oats	1.20	1.20	1.56
(\$/Ton)			
Alfalfa	86.00	80.00	106.00
All Hay	84.00	79.00	109.00
(\$/Cwt.)			
Steers & Heifers	59.00	58.70	66.70
Feeder Calves	69.00	71.31	77.90
Cows	30.60	33.10	35.70
Barrows & Gilts	30.00	31.90	49.30
Sows	20.70	20.20	39.80
Sheep	25.20	27.40	34.10
Lambs	60.10	70.10	81.00
(\$/Lb.)			
Turkeys	0.38	0.37	0.40
(\$/Dozen)			
Eggs	0.46	0.40	0.40
(\$/Cwt.)			
All Milk	17.10	14.60	12.60

ISU, IEFC Issue State Income Growth and Tax Projections

—David Swenson, Department of Economics

Depressed agricultural commodity prices have led to concern about widespread possible economic impacts in Iowa because the state's economy is strongly linked to agricultural production. This article compares the income and tax estimates produced by the Iowa State University (ISU) Department of Economics and the Iowa Economic Forecasting Council (IEFC).

Earlier economic impacts were analyzed by the ISU Department of Economics, which factored in worst-case estimates if the agricultural sector were to realize significant income losses. Those impacts have

been modified to account for a more realistic agricultural production scenario by allocating the losses to household spending and discretionary producer spending.

This article discusses the quarterly estimates of state personal income change, sales taxes, personal income taxes, and corporation income taxes through the 2000 fiscal year. There are two sets of estimates for income and taxes. One set of estimates is derived directly from the income estimates produced by the IEFC at the University of Iowa's Institute for Economic Research. The ISU Department of Economics

produces the second set of estimates, derived from the state's historical relationship to national gross domestic product.

While the IEFC acknowledges slower economic growth for the state as a whole, it is uncertain whether this slowdown is significantly attributable to expected declines in farm earnings or more so to overall sluggishness in the national economy. In an October 1998 report by ISU on possible agricultural and statewide income losses, it was estimated that the total income effect of reduced agricultural sales could lead to \$685 million in lost income for all Iowans.

Meet the Staff

Bruce Babcock, a professor in the Economics department, is the new director of the Center for Agricultural and Rural Development (CARD). His appointment was effective November 16, 1998.

"One of my goals as director is to make sure that policymakers and others who can potentially benefit from CARD analysis understand the analytical capabilities of CARD, what CARD is doing, and that CARD is ready and willing to undertake new projects," he said.

Babcock's goals for CARD include integrating the existing research programs of the new division heads—Catherine Kling, professor of economics, and John Beghin, associate professor of economics—into CARD. He also plans to establish new areas of research in financial management in agricultural policy, rural development policy, and science and technology policy.

Before being named director, Babcock was head of CARD's Resource and Environmental Policy Division, which assesses regional, national and international policies affecting the environment. He will continue work in this area with

research looking at ways to increase the environmental performance of government policies.

Another area of research is the potential contribution of midwestern agricultural soils as a "carbon sink." The objective of this research, Babcock said, "is to determine how the agricultural sector can contribute and benefit if a carbon market comes into existence. A nice side benefit of sequestering carbon through conservation tillage is that the long-term productivity of soil is enhanced by increasing soil organic material."

The main focus of Babcock's future research, however, will be on risk management policy. This includes identifying both the government's and private sector's role in providing a safety net to those in agriculture.

"We are looking for ways to maximize the efficiency of federal funds," he said. "This potentially could come in the form of risk management policies, as opposed to lump-sum transition payments, ad-hoc disaster payments, or traditional price support payments."

Babcock received a bachelor's degree in economics of resource use



Bruce Babcock, Director of CARD

and a master's degree in agricultural economics, both from the University of California at Davis. He received a doctorate from the University of California at Berkeley in agricultural and resource economics.

Babcock is married to wife Ali, and they have four sons, ages 4 to 12. He enjoys coaching and playing soccer, running, and water skiing. ♦

Figure 1. IEFEC and ISU Income Growth Projections

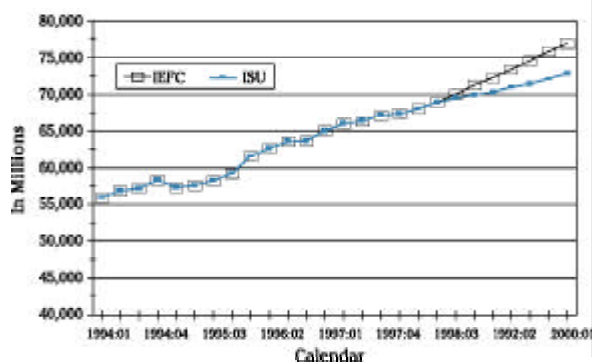
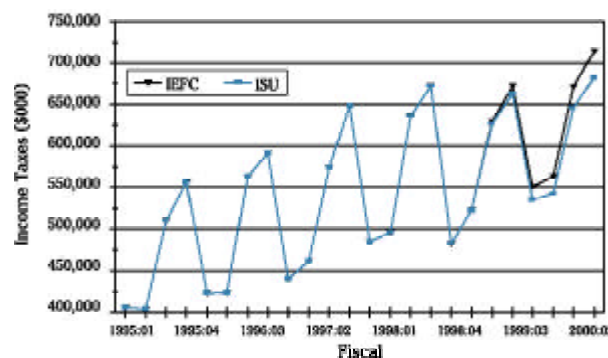


Figure 2. IEFEC and ISU Income Tax Projections



Subsequent to that report, federal legislation was passed that is designed to minimize much of those losses to the producer. Additional aid for hog producers has also been proposed, which will help offset income losses.

Two different methods were used to produce estimates of income growth (Figure 1). The IEFEC estimates predict income growth through the end of the 1999 fiscal year at an annual rate of 6.25 percent. The ISU method estimates income growth by the end of fiscal year 1999 to amount to 3.33 percent. For the 2000 fiscal year, IEFEC estimates personal income growth at 6.32 percent and ISU estimates a 3.55 percent growth.

For the 1999 fiscal year, IEFEC estimates sales taxes to grow to \$1.379 billion, an 8 percent growth over the previous year. Growth for the following fiscal year 2000 is estimated at 4.6 percent. ISU estimates sales tax at the end of the 1999 year to be 7.7 percent higher than in 1998, and sees only 1.79 percent growth in the year 2000.

Both institutions estimate relatively modest growth in personal income taxes in 1999 versus the fiscal year 1998 (Figure 2). The IEFEC method anticipates that personal income taxes will grow by 8.3 percent by fiscal year 2000, and the ISU methods estimate growth to be 4.7 percent.

Neither institution anticipates much numerical growth in corporation income taxes for fiscal year 1999. However, for the fiscal year 2000, IEFEC projects 7 percent growth, and ISU projects 3.3 percent growth.

IOWA STATE ANALYSIS OF PROJECTIONS

State policymakers might be attentive to major reports of changes in consumer spending. However, so long as unemployment numbers remain low and earnings are stable, major changes in sales and income taxes should not be anticipated. Were unemployment to rise or statewide personal or industrial consumption to change markedly, policymakers might reconsider the

likelihood that the IEFEC and ISU projections will be realized.

In addition, if current reductions in agricultural earnings persist, analysts might wish to revisit these figures. Low grain prices coupled with low livestock prices foretell stress on the agricultural sector, but not necessarily on the processing or consuming sectors. Also, in the long run, consumer welfare gains attributable to lower food prices can stimulate additional nonfood purchases, which in turn can boost the state's economic fortunes and mask, for a time, the losses realized in the agricultural sectors.

Finally, the near and longer term performance of the national economy will be an important factor, notwithstanding the fortunes of the agricultural sectors. If the national economy loses momentum, significant revisions in income and revenue growth will be necessary. ♦

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CARD Publications

BRIEFING PAPERS

- 98-BP 19. "Loan Deficiency Payments or the Loan Program?" Hayes, Dermot J., and Bruce A. Babcock. September 1998.
- 98-BP 20. On-Line ONLY. "Are Loan Deficiency Payments Too Low in Iowa?" Bruce Babcock, Dermot Hayes, Phil Kaus. December 1998.

STAFF REPORTS

- 98-SR 87. "Assessing the Prevalence of Nutrient Inadequacy." Alicia L. Carriquiry. November 1998.

TECHNICAL REPORTS

- 98-TR 42. "The Turkish Agricultural Policy Analysis Model." A. Ali Koc, Darnell B. Smith, Frank Fuller, and Jacinto Fabiosa. November 1998.

WORKING PAPERS

- 98-WP 199. "Strategic Behavior, Institutional Change, and the Future of Agriculture." Johnson, Stanley R.. September 1998.
- 98-WP 201. "Estimating Atrazine Leaching in the Midwest." Michael R. Burkart, Philip W. Gassman, Thomas B. Moorman, and Piyush Singh. October 1998.
- 98-WP 200. "Optimal Soil Sampling under a Geostatistical Model." Gregory R. Pautsch, Bruce A. Babcock, and F. Jay Breidt. October 1998.
- 98-WP 202. "China's Rural and Urban Household Survey Data: Collection, Availability, and Problems." Cheng Fang, Eric Wailes, and Gail Cramer. October 1998.
- 98-WP 203. "Feed-Grain Consumption by Traditional Pork-Producing Households in China." Cheng Fang and Frank Fuller. November 1998.
- 98-WP 204. "A New General Conceptual Approach to Modeling the Livestock Sector: An Application to the Japanese Swine-Pork Sector." Jacinto F. Fabiosa and Xiaoting Qi. December 1998.
- 98-WP 205. "An Econometric Decomposition of Aggregate Data: Application to the EU-15 Average Cattle Slaughter Weight." V. Premakumar and Jacinto F. Fabiosa. December 1998.

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